1991-1992

BUDGET ADDRESS

Cover: The gyrfalcon, which was chosen the Official Bird of the Northwest Territories in 1990.

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1991 - 1992

BUDGET ADDRESS

Northwest Territories

THE HONOURABLE
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MINISTER OF FINANCE

Presented by
The Honourable Michael A. Ballantyne
Minister of Finance
At the Eighth Session of the Eleventh Legislative Assembly
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TABLE OF CONTENTS

1991-92 BUDGET ADDRESS

ECONOMIC SITUATION AND OUTLOOK 1

FISCAL STRATEGY FOR 1991-92 3

ACCOMPLISHMENTS SINCE 1987 5
- Economic Development 6
- Programs for Families and Individuals 9
- Building Community Facilities and Housing 11
- Maintaining a Sound Financial Position 13

REVENUE INITIATIVES 13

CONCLUSION 15

APPENDIX A-GOVERNMENT FINANCIALSITUATION 17
- **FISCAL POSITION AND OUTLOOK**
- **HISTORICAL FISCAL TRENDS - 1987-88 to 1990-91**
- **FINANCIAL ASSETS AND LONG-TERM DEBT OF GOVERNMENT ENTITIES**

APPENDIX B-GOVERNMENT REVENUES 29
- **REVENUE GROWTH**
- **GRANT FROM CANADA**

APPENDIX C-ECONOMIC SITUATION AND OUTLOOK 37
- **ECONOMIC PERFORMANCE IN 1990**
- **THE OUTLOOK IN DETAIL**
- **THE MEDIUM-TERM OUTLOOK**

Mr. Speaker, I am pleased to present my fourth budget as Minister of Finance. It has been over three years since this government took office, and 1991 will be the last year of its mandate. When we first took office in late 1987, we set goals for the following four years, and established the basis for policy and program decisions throughout the term of the government.

Since then many of these goals have been reached, and we are well on our way to reaching many more. This has not been an easy task. We have faced a number of difficult challenges. Today I would like to review some of the achievements of this government over the last three years. I want to illustrate what we have accomplished so far, and what we hope to accomplish before the end of our mandate. But before I do that, I wish to acknowledge the constructive relationship that we have had with the Standing Committee on Finance and its Chairman, Mr. John Pollard. The government and the Committee have not always agreed, but we have benefitted greatly from the Committee's advice and recommendations.

In developing this year's budget, my cabinet colleagues and I have focused on securing our achievements, and at the same time, on maintaining the government's sound financial position. Now is not the time for diverting ourselves from our established direction, nor for jeopardizing our financial situation, especially given current economic conditions.

ECONOMIC SITUATION AND OUTLOOK

The performance of the economy of the Northwest Territories has been disappointing over the past year. Economic activity is now estimated to have declined in 1990. This decline was led by a 25 per cent fall in investment activity and by a reduction in the combined growth rate of spending by all levels of government. Total employment fell by about 2.5 per cent.

Poor overall economic performance is expected to continue during 1991. The slowdown of operations at the Colomac mine will reduce gold production and mining employment compared to 1990. This year, real Final Domestic Demand, the value of all goods and services purchased in the Northwest Territories, after adjustment for inflation, is forecast to fall for the second consecutive year.

This weak economic performance and outlook was caused by events beyond the control of the Government of the Northwest Territories. High interest rates, weak gold prices and the high exchange rate of the Canadian dollar compared to the United States dollar have reduced margins of existing mines and the profitability levels of prospective new mines. The elimination of federal incentives for mining exploration has also had a detrimental effect on the mining industry and on the local suppliers of services to the industry. Finally, the lower amount of funding that the Government of the Northwest Territories can expect to receive from the federal government under the Formula Financing Agreement is reducing the ability of the public sector to sustain economic activity.

While general measures of economic performance are important indicators of the overall health of our economy, we must look beyond them. The unequal distribution of economic activity among regions makes many northern residents spectators rather than actors in economic growth. Our primary focus must continue to be to achieve a form of economic development which will improve the performance and structure of the economy and distribute the benefits more equally over the Northwest Territories.

There has been extensive analysis and reflection on economic development over the past three years. The government's Economic Strategy presented a coordinated approach to government action to foster economic development. The Strategy's objectives are to promote economic growth and diversification, reduce economic disparities in the Northwest Territories and ensure that our residents receive a larger share of the benefits of economic development. The Strategy reinforces the Report of the Special Committee on the Northern Economy which had identified structural problems that impede the achievement of broad-based and durable economic development.

Supporting the Economic Strategy is the detailed Transportation Strategy that was released last year, which provides a clear agenda for the development of our transportation infrastructure. The Transportation Strategy identifies that the lack of adequate transportation infrastructure is a major barrier to economic development in the north. The Strategy maps out a long term and comprehensive transportation plan for the Northwest Territories.

Mr. Speaker, there is reason to be concerned about the medium-term outlook for our economy. Over the past twenty years, the government sector has led the economic development of the Northwest Territories. High levels of expenditures were needed to narrow the gap between public services provided here compared to elsewhere in Canada. Secondly, high levels of payments to individuals were needed to extend income security programs to all residents of the Northwest Territories. Given the very difficult budgetary problems that our country is facing and the fact that the grant and other transfer payments from the federal government provide up to 85 per cent of our funding, this stimulus may not continue.

In the absence of a renewed commitment by the federal government to the development of the north, it will be extremely difficult to maintain the economic growth in the north that has taken place in the past.

However, even if economic activity expands less rapidly than in the past, structural changes resulting from the successful implementation of our Economic Strategy can increase the proportion of locally supplied labour and business services to the resource and government sectors. They can also ensure that the benefits of economic activity stay in the north and are more equally shared among the regions.

FISCAL STRATEGY FOR 1991-92

Mr. Speaker, let me outline the fiscal strategy of the government for the coming year.

The strategy for 1991-92 includes:

- securing our achievements and maintaining the government's sound financial position;

- providing fiscal flexibility to the incoming government by developing options for refocusing government expenditures through an in-depth structural review.

In the short term, we are committing ourselves to handing the incoming government a sound financial structure. The new Formula Financing Agreement means lower funding growth from the federal government. This is a reality we must live with. In my address to this House last February, I stressed that we could manage under the new Formula if we were careful. This meant adjusting our expenditure growth to meet revenue projections.

In 1991-92, expenditures will be slightly under $1.1 billion, after allowance for supplementary estimates and appropriation authority lapses, an increase of slightly under five per cent from 1990-91 revised estimates. This rate of increase is less than the expected rate of inflation of 5.3 per cent, and is less than the forecast rate of revenue growth of 5.8 per cent. These closely matched rates of expenditure and revenue growth will yield an essentially balanced budget, reflecting our commitment to living within our means.

Restraining expenditure growth in this way has not been easy. Every year our population increases, expectations for government action increase, and inflationary pressures increase costs. To achieve a responsible budget without significant reductions in services to people, or significant tax increases, we have pared discretionary spending to the bone.

For three years we have provided almost no additional funding to departments for inflation, and departments responded with increased efficiencies. Add to this the three per cent reduction we made last year after learning of the Formula Financing cut, and you can appreciate the severe control we have imposed on discretionary spending. These measures are necessary if we are to maintain this government's sound fiscal health. In 1991-92, government spending will exceed revenues, which will result in a drawdown of the government's surplus by $8.0 million, or less than one per cent of total expenditures. This will leave the next government with an accumulated surplus of almost $26 million. Mr. Speaker, we will meet our short-term objective of maintaining our government's sound fiscal position.

In the long term, Mr. Speaker, the sizes of the federal deficit and debt mean that we must reduce our expectations of increased funding from Ottawa. As well, the current high level of federal taxation in the north limits the room we have available to raise our own revenues. However, despite the fact that the new Formula Financing Agreement means lower expected revenue growth, it also means relative predictability in funding levels until 1994-95. In our present economic climate this is important.

Long-term planning will be necessary if the government's fiscal health is to be maintained. The short-term measures we have taken have given us some breathing room in which to develop decisive longer-term options for coping with financial circumstances which could prevent our government from securing and acting upon its priorities. Options need to be developed for fundamental change in the structure of government and in the way government does business.

The Standing Committee on Finance has requested a base review. Building on this recommendation, we have established a project to review the operations and structure of northern government.

Under the direct control of the elected members who comprise the Financial Management Board, a team has been assembled to undertake this comprehensive review. It is made up of seasoned and proven public sector managers from both within and outside our government, as well as aboriginal northerners. A special advisor from the business sector will also provide input and advice to the project team. The team will carry out its task with community input.

The magnitude of the fiscal problems we face, and the competing visions of what northern government should be, leave no room for a timid approach to this project. The project has begun and will be completed this summer.

ACCOMPLISHMENTS SINCE 1987

Mr. Speaker, let me describe the government's current fiscal position, and compare it with the situation at the beginning of our mandate.

In the four years since 1987-88 we will have increased our expenditures at an average rate about one per cent lower than the rate of growth in our revenues. This was achieved during a period when the federal government introduced cut-backs to funding growth and when territorial tax increases were kept to a minimum. At the same time, we were able to meet increasing public expectations that program delivery be maintained, and in some areas improved.

During those four years, this government will have spent just under $4 billion, only $17 million less than the revenues we collected. Mr. Speaker, the government wanted a balanced budget. The Standing Committee on Finance wanted a balanced budget. With a difference of $17 million out of a total of $4,000 million, for all intents and purposes, we have achieved a balanced budget over the four years of our mandate.

Mr. Speaker, numbers alone do not show what the government and the Legislative Assembly have accomplished. The allocation of our expenditures is as important as their rate of growth and even more important are the results that are achieved.

For example:

- We have increased our allocation to economic development expenditures, demonstrating our commitment to long-term sustainable economic development in the Northwest Territories.

- We have made job training and education a priority so that northerners can take better advantage of employment opportunities.

- We have extended and enhanced the programs needed to respond to the complex and difficult problems facing families and communities across the Northwest Territories.

- We have significantly added to the quantity and quality of community facilities and housing in the Northwest Territories.

- And finally, we are leaving a sound fiscal foundation on which the incoming Legislative Assembly and government can continue to build.

We recognize that no government or legislature can solve all the problems facing northerners today, but we believe that we are on the right course.

We have restricted expenditure growth in 1991-92 by keeping a tight rein on discretionary expenditures. As a result of careful allocation of our scarce resources, we are pleased to report that this budget contains funding for a number of important initiatives which will build on our accomplishments since 1987.

ECONOMIC DEVELOPMENT

Mr. Speaker, in 1988, this government committed itself to breaking down the barriers to economic development by "focusing on northern control of energy; improving the northern transportation network; re-shaping financial support to business; and directing government spending, especially for construction projects, so that it helps build local economies".

Since 1987, northern control of energy has increased. In May, 1988, the Government of the Northwest Territories acquired the Northern Canada Power Commission, and the Northwest Territories Power Corporation was established. To finance this purchase, the private sector loaned, for the first time, $53.5 million to the Government of the Northwest Territories.

In September, 1988, the Government of the Northwest Territories signed an enabling agreement on the Northern Accord with the Government of Canada. Along with increased control over northern energy, the Accord, when finalized, will mean potential oil and gas revenues for the government with an accompanying reduced dependence on the federal government.

The northern transportation system is gradually improving, but major advances are dependent on renewed federal investment in transportation infrastructure in the north. We finalized the transfer of full responsibility for territorial highways from the federal government in April, 1990, and we expect to finalize the transfer of Arctic B and C Airports by the end of this fiscal year. The devolution of these two programs will involve the transfer of an additional $23 million annually from the federal government.

The Department of Transportation's capital budget will be increased from $8.6 million in 1990-91 to $31 million in 1991-92. About half the increase comes from the highways transfer. The remainder of the increase will be used to follow through on the Transportation Strategy. For example:

- $2.5 million will be spent in 1991-92 on the construction of a new ferry as the next step in the completion of the all-weather highway to the community of Wrigley.

- A new airport will be constructed in Paulatuk, at a cost to the Government of the Northwest Territories of $1 million in 1991-92. An additional $860,000 will go toward improvements to the airports in Rae Lakes and Snowdrift.

- The 1991-92 budget includes $890,000 for the Community Wharves program. Work will begin on the construction of breakwaters in Arctic Bay, Broughton Island, Gjoa Haven and Sanikiluaq.

Access to capital for business has improved since 1987. In 1990-91, the Northwest Territories Development Corporation was created and $2 million was allocated for corporation investment in northern business. A further $10 million has been allocated to the Corporation in 1991-92.

The implementation phase of the Economic Strategy includes major policy initiatives by the Department of Economic Development and Tourism in 1991-92.

- The Business Loan Fund will become a separate agency – legislation will be introduced this session to establish the Northwest Territories Business Credit Corporation.

- The department will continue to develop and expand the arts and crafts industry, expanding programs for carvers. An additional $270,000 has been allocated for this initiative.

- Nearly $5 million in capital funding has been allocated to enhance visitor and park facilities in the Northwest Territories.

Government projects were implemented in ways that maximized opportunities for northern and local employment and business. As a result of a motion of the Legislative Assembly last spring, a consultation paper has been prepared and will be reviewed by northern businesses and individuals, which we hope will result in improvements to northern business incentives.

Mr. Speaker, we want to build on the strengths of our economy, to create jobs for northerners and to increase our self-reliance. Economic development, however, will be of little benefit to northerners if they are not in a position to take advantage of jobs as they become available. Improving education levels and opportunities in the Northwest Territories is of critical importance. In 1988, we committed ourselves to introducing education and training programs geared directly to employment, to encouraging our students to stay in school and to improving the effectiveness of our schools.

There are now close to 1,000 northern students enrolled in post-secondary programs who are receiving assistance from the Department of Education. About half of these students are native. Arctic College full-time enrolment has increased 7 per cent since 1988-89 and part-time enrolment has increased more than 30 per cent.

Arctic College programs have expanded rapidly to meet demands for northern-oriented training. New or enhanced programs to be given priority in 1991-92 include the arts and crafts sector, alcohol and drug counsellor training and interpreter-translator training, at a cost of almost $800,000.

This government is pleased to recognize the progress that has been made by the Leadership Residence Program in Fort Smith, since its inception in September, 1990. Of the fourteen

students selected from several western Arctic communities, eleven still remain and are doing extremely well in meeting the challenges involved in their advanced level studies. The Department of Education is actively considering a similar program in the eastern Arctic.

The Training-on-the-Job Program will receive an additional $500,000 in 1991-92 to meet growing demand by the private sector for trainees.

Subject to the successful completion of a renewed Employability Enhancement Accord with the federal government, $1.5 million will be made available in 1991-92 for training social assistance recipients.

Our objective, Mr. Speaker, and we know that this, too, cannot be achieved overnight, is an educational system which meets the needs of northerners, and prepares them to take advantage of economic development as it occurs.

Protection of our environment is fundamental to the long-term well-being of northerners, and absolutely essential to the traditional way of life of native people. Even though economic development is a priority of this government, it must not take place at the expense of the environment.

Most important is the package of environmental legislation already approved or to be considered by this Assembly. The *Environmental Protection Act* was amended in 1990, making it enforceable and consistent with today's standards. Further amendments will be introduced during this session which address air quality and hazardous waste management, as well as the Minister's authorities and powers. In 1990, this legislature also approved the *Environmental Rights Act*, a private member's bill which gives all residents of the Northwest Territories a role in environmental protection.

In the coming year, our government will continue to take steps to link a healthy environment with a healthy economy. The Department of Renewable Resources will work with other departments and northern residents to develop the Action Plan to implement the Sustainable Development Policy. Finally, the Northwest Territories Round Table on the Environment and Economy, chaired by the Government Leader, has been established, and has held its first meeting.

Political and constitutional development issues, including land claims, self-government, devolution, division and constitutional reform, have a direct bearing on our future economic welfare and fiscal health. It is vital that these issues be resolved. As was announced in the Speech from the Throne last week, the government will be tabling a paper later in this session dealing with these issues.

In 1988, the Meech Lake Accord became a serious concern to northerners. A major issue was that the Accord threatened to make it difficult for the Northwest Territories to achieve

provincial status. Although the Accord failed, our government and legislature were successful in raising the profile of northern constitutional issues and gaining support for them across Canada. We must be aggressive and deliberate in continuing to pursue our legitimate place in Confederation.

In support of that goal, we continued to seek greater province-like powers, through the devolution of responsibilities from the federal government. Besides the Power Corporation, Arctic Airports and highways, we also assumed full responsibility for the provision of health services in the Northwest Territories. Heading into the final year of our mandate, the transfer of responsibility for oil and gas management under the Northern Accord remains a key objective.

In 1990, an Agreement-in-Principle was signed by the Tungavik Federation of Nunavut and the governments of Canada and the Northwest Territories. The Dene/Metis Final Agreement was signed. Although the outcome of this Agreement remains uncertain, we are hopeful that implementation of the claim on a regional basis will be successful. Resolution of land claims will improve investor confidence and increase our economic development potential.

PROGRAMS FOR FAMILIES AND INDIVIDUALS

In setting our direction for the 1990's, Mr. Speaker, the government promised that essential programs for families and individuals, such as social services, health and justice would be supported – and they have been.

Since 1987, the Department of Social Services has developed and implemented programs to aid in the fight against youth suicide and child sexual abuse. Eight shelters for victims of spousal assault were opened across the Northwest Territories. Increased funding has been made available for the treatment and prevention of alcohol and drug abuse. Senior Citizens' Supplementary Benefits have been increased by over 25 per cent. This government has recognized the urgency of many of the social problems in the Northwest Territories and has responded.

In the 1991-92 budget:

- The Child Sexual Abuse Program will be enhanced by an additional $630,000. The funding will be used to provide highly trained specialists to support communities dealing with child sexual abuse issues. In addition, it will provide training to front-line social workers and will activate the resources and strengths of communities to meet the needs of recent and past victims of sexual abuse.

- This budget includes almost $1.3 million for the operation of two Alcohol and Drug Treatment Centres, $566,000 for the operation of the Northern Addictions Services 20-bed facility near Dettah, and partial funding of $730,000 for the operation of the 30-bed treatment centre planned for the Hay River Reserve.

- $1.4 million is included to implement a food rate increase in social assistance payments effective April 1, 1991.

Mr. Speaker, I am pleased to announce that the government will introduce legislation to increase the minimum wage in the Northwest Territories from $5.00 to $6.50 an hour, effective April 1, 1991. At this time, I would like to acknowledge the work of the Labour Standards Law Review Panel on this issue.

In 1990, the Department of Health delivered a territorial-wide program which focused on AIDS and on tobacco abuse. The Extended Medical Benefits Program was enhanced to cover a wider range of medical conditions and the Seniors' Health Benefit Program was introduced. The provision of health care at the community level was improved through enhancing the skills of community nurses. It was further improved through the reintroduction of the Community Health Representatives as an important part of the community health system. By the end of June of this year, 37 Community Health Representatives will have completed the Arctic College training program. During the last session, the department tabled its Report on Health and Health Services in the Northwest Territories, a starting point from which the department can plan its long-term health strategy.

In 1991-92, a key initiative of the Department of Health will be to focus on strengthening and rationalizing its programs, given the rapid increase in health-care costs, thereby ensuring that the best use is made of the resources available, particularly at the community level.

Mr. Speaker, aboriginal languages have made substantial progress since 1987. Amendments to the *Official Languages Act* have given aboriginal languages an official status in the Northwest Territories. Amendments to the *Jury Act* have enabled people who speak only an aboriginal language to serve on juries. A legal interpreter training program was introduced, and has led to improved translation in the courts. Much of what has been done in the Northwest Territories breaks new ground in the use of aboriginal languages. In 1991-92, the budget of the Department of Culture and Communications will be increased by over $1 million as part of the government's commitment to the preservation and revitalization of aboriginal languages. An Official Languages Commissioner will be appointed to monitor implementation of the *Official Languages Act*.

Since 1987, other significant improvements have been made to justice services for the people of the Northwest Territories. Some of these are:

- the establishment of the Maintenance Enforcement Program to assist people in collecting maintenance payments;

- the appointment of two new regional territorial court judges;

- the opening of two courthouses and three regional legal aid clinics, including one which should open in 1991-92 in the Kitikmeot;

- the establishment of the Victims Assistance Program. I am pleased to note that the 1991-92 budget includes an additional $200,000 for this program.

The Department of Justice is reviewing gender equality and related cultural issues. An independent special advisor has been retained to address the diverse concerns of the people of the Northwest Territories. The Aboriginal Justice Advisory Committee has been expanded to provide broad guidance to the Special Advisor in her work. We are optimistic that positive change can be brought about as a result of this action and the government appreciates the support of this assembly in undertaking this initiative. We have allocated $500,000 in 1991-92 for this review.

To increase recruitment of natives in the RCMP, we have funded 70 native students, who have graduated from the RCMP Student Summer Program. Including expected enrolments this summer, the total will come close to 100 native students over the term of our mandate. Out of a total of 20 available positions across Canada, we have secured seven positions in the federal Aboriginal Constable Development Program.

Also in 1991-92, the Department of Justice will be providing funding to the Dene Cultural Institute to pay for a significant portion of the costs of conducting a Dene custom law review in Lac La Martre.

BUILDING COMMUNITY FACILITIES AND HOUSING

Mr. Speaker, it has long been recognized that many of the health and social problems that we face in the Northwest Territories can be linked to a lack of basic services and facilities that are taken for granted in many other parts of Canada.

This government has made substantial progress in constructing essential community facilities and housing for northern residents. Over the four years of our mandate, we will have made over $600 million in capital expenditures, 70 per cent of which were devoted to providing infrastructure in the areas of education, housing, health, local government services, recreation and social services.

Over the term of its mandate, this government will have built, or will have begun construction on 19 new or replacement schools, undertaken three major renovations and built seven additions to schools at a cost of $73 million. In 1991-92, construction will begin on new schools in Wrigley, Rae Lakes, Grise Fiord, Yellowknife and Whale Cove, and major additions and renovations will be undertaken in Arctic Bay, Cape Dorset, Arviat, Clyde River, Iqaluit and Spence Bay. These projects will cost $20.4 million in 1991-92.

Health-care facilities have been expanded. In the four years since 1987-88 we have replaced six nursing stations and renovated another two, at a total cost of almost $15 million. We also established the Lena Pedersen Centre and the Vital Abel House in order to provide boarding home services for patients referred to Yellowknife.

In addition to building the alcohol and drug treatment centre on the Hay River Reserve, the government has made large contributions toward the construction of the treatment centre near Dettah, and to the planned centre in the eastern Arctic, at a combined cost of $3.7 million.

This government places a high priority on providing adequate social housing to the residents of the north. Improved housing makes the most important direct contribution to improving the welfare of northerners. Over the four years since 1987-88, the Northwest Territories Housing Corporation will have built over 1,200 new social housing units, including about 650 under the Homeownership Assistance Program, or HAP, at a total cost of over $135 million. In addition, another 300 replacement units will have been built, at a further cost of $55 million. Over the term of our mandate, the Corporation will also have provided low-cost housing to an average of 140 households through its rent supplement program.

In 1991-92, the Northwest Territories Housing Corporation will build 400 new social housing units – 168 public housing units, 170 HAP houses, and 62 northern rental replacements, at a cost of $57 million. This represents a net increase of 338 social housing units in the Northwest Territories. In addition, 30 old public housing units will be retrofitted and $2.5 million will be spent on our home repair program for low-income households. Finally, in order to assist households in non-market communities to purchase their own homes, the Housing Corporation will implement the Access Program in 1991-92. This program will offer homeownership counselling, supplementary financing, and the delivery, at cost, of housing packages.

During its mandate, this government will have constructed four senior citizens' homes. Planning will begin in 1991-92 on residences on the Hay River Reserve and in Fort Norman.

In the spring of 1989 the government introduced its interim child day-care program. In the three years following implementation, the government will have created over 500 new licensed day-care spaces and will have provided Northwest Territories non-profit child day care operators with almost $3 million in operating subsidies and start-up grants. In 1991-92 alone, the Department of Social Services is planning for the creation of 210 licensed spaces, and will distribute $1.1 million in funding to operators.

Over 40 per cent of our population is under the age of 19, compared to 28 per cent for Canada. We have a pressing need for facilities and programs aimed at young people. Recreational and cultural programs are one way of meeting this need. During its mandate, this government will have built 17 new recreational complexes and community gymnasiums, and replaced another six. In 1991-92, construction will start on a recreational complex in Gjoa Haven, and planning will begin on facilities for Tuktoyaktuk, Chesterfield Inlet, and Pelly Bay. Construction will begin on libraries in Inuvik and Cambridge Bay, and planning will begin on libraries in Fort Simpson, Pond Inlet, and Arviat.

Significant improvements have been made to community infrastructure. During its mandate, this government will have built or renovated community offices in seven communities and will have constructed or renovated firehalls or garages in 28 communities at a cost of almost $17 million. During this period $64 million will have been spent on upgrading water and sewer facilities, and a further $23 million will have gone toward building or upgrading tank farm facilities.

MAINTAINING A SOUND FINANCIAL POSITION

We set difficult objectives for ourselves in 1988, Mr. Speaker, but we also realized that they were long-term objectives and that our financial resources were limited. We realized that meeting these goals and maintaining existing programs would severely strain our financial capabilities. The renewal of the Formula Financing Agreement in 1990 further limited our resources by restricting the growth of the grant from Canada. It is a significant achievement of this government and of the Legislative Assembly that we have been able to accomplish so much.

Over the term of this government, expenditure growth has been held in check, tax increases have been kept to a minimum, and the government has incurred no debt in order to finance budgetary deficits. My cabinet colleagues and I are confident in saying that the Government of the Northwest Territories is in essentially the same sound financial condition as when we first took office.

REVENUE INITIATIVES

Mr. Speaker, I would now like to discuss some of the constraints we have been under on the revenue side.

Revenues in 1991-92 will be $1.08 billion, 5.8 per cent higher than in 1990-91. The grant from Canada will be $798 million, or 74 per cent of our total revenues. Since 1988, there has been a ceiling on the rate of growth of the base from which the grant is calculated. This ceiling is equal to the three-year average in the growth rate of the Canadian Gross Domestic Product. Due to the current recession, this ceiling will come into effect for the coming year. This ceiling, combined with the changes imposed by the federal government last year, will cost this government about $30 million in reduced funding under the grant from Canada in 1991-92.

Mr. Speaker, it would be counterproductive to make up this lost revenue by increasing taxes. First, we are in a recession. Second, the full impact of the introduction of the Goods and Services Tax is not known, and third, the relative federal tax burden in the north is already very high. Therefore:

- There will be no territorial sales tax introduced in this budget.

- There will be no increase in the Personal Income Tax rate in this budget.

This budget proposes no increases in fuel and tobacco taxes, nor in liquor prices. However, as a result of the introduction of the Goods and Services Tax on January 1, our government must make administrative changes in order to maintain the government's revenues at their current levels.

The government will therefore be tabling legislation at this session which will change the method by which the tax on gasoline will be calculated. Neither gasoline prices nor government revenues will increase as a result of this change.

Similarly, a change has been made to liquor pricing and will be made to the method by which the tax on tobacco will be calculated. Neither government revenues nor the prices of tobacco and alcohol products are increased as a result of these changes.

Legislation will be introduced during this session to increase the tax on loose tobacco from 40 per cent to 60 per cent of the price. This represents the final phasing-in of tobacco tax increases announced in 1989 and 1990. Following this change, all tobacco products will be taxed at the same rate.

In the last two budgets, the government introduced increases to tobacco taxes and to liquor prices, partly as an incentive for people to follow more healthy lifestyles. I am pleased to be able to report that these measures, along with the awareness programs of the Departments of Health and Social Services, are having an effect. The consumption of alcohol and tobacco products in the Northwest Territories is falling. Since 1988, per capita consumption of wine and spirits in the Northwest Territories has fallen almost seven per cent, and consumption of beer has dropped over 10 per cent. The number of cigarettes sold in the Territories since 1989 has fallen three per cent and the volume of cigarette tobacco sold has declined nine per cent.

This budget includes a number of increases to minor fees charged by the government for various services which will increase revenues by approximately $1.3 million in 1991-92.

Mr. Speaker, because we face higher living costs in the north, a fact which is not fully reflected in the federal income tax system, we pay a higher percentage of our real income in federal taxes than do other Canadians. We are also paying a higher amount of GST due to higher prices in the Northwest Territories. The Northern Residents Deduction, which is meant to partially reduce this burden, has become an area of growing concern to me. It is not indexed to reflect inflation and it is not high enough to compensate for the increase in northerners' relative tax burden resulting from the imposition of the GST. I will continue to make vigorous representations to the federal Minister of Finance to correct this situation by increasing the Northern Residents Deduction to reflect past price increases and to adjust it for inflation in the future.

Mr. Speaker, there will be no increase in the corporate income tax rate in this budget. Furthermore, I want to announce a measure that will provide some tax relief to our small business sector. Last year I announced a reduction from 10 per cent to eight per cent in the Northwest Territories income tax rate paid by private Canadian-controlled corporations on the first $200,000 of taxable active business income. Our small business sector is feeling the effects of the recession and is facing a higher administrative burden due to the GST.

I am pleased to announce that this tax rate will be further reduced from eight to five per cent effective July 1, 1991. Legislation for this change will be introduced during this session of the Legislative Assembly.

CONCLUSION

Mr. Speaker, in my first address to this House as Minister of Finance, three years ago, I stressed that the overall fiscal policy of our government was to live within our means, and not impose the burden of our expenditures today on tomorrow's taxpayers. This government is still committed to that philosophy.

However, we have put the necessary building blocks in place for a sound financial future. Three years ago, I made a commitment that this government would not complete its mandate burdened with an accumulated deficit. Barring any further unilateral action by the federal government to reduce funding or offload expenditures, we will meet this commitment. We have made the tough decisions necessary to keep expenditure growth below revenue growth. The Formula Financing Agreement with Canada will provide relative certainty with respect to revenues until the middle of the decade. We have kept our tax rates among the lowest in Canada. In partial recognition of our high tax burden, our nominal personal income tax rate is the lowest in Canada and our small business income tax rate is the second lowest in Canada. We have no territorial sales tax. The average provincial debt per capita is about $3,000 and the federal debt per capita is about $14,000. We have incurred no debt to finance budgetary deficits.

This is a record that most governments would envy.

However, our government is facing lower revenue growth, and increasing expenditure pressures. We must be prepared to make some hard decisions in the near future – decisions about what we expect from government, and what we are willing to do without. Through the project to review the operations and structure of northern government, we will be developing options for fundamental changes in the way government is structured and in the way its programs are delivered.

In concluding, Mr. Speaker, we have a strong financial position which we will need to manage in the different and more difficult fiscal environment of the 1990's. But we will need much more than financial skills to succeed. We will need pragmatism in setting goals and objectives for ourselves that can be achieved without jeopardizing our financial solvency. We will need cooperation between all segments of Northwest Territories society to focus our collective efforts in allocating expenditures to program areas where needs are greatest. We will need to have realistic expectations of what government can do. And, most importantly, we will need to hold to our vision of continued political and constitutional development which will give the Northwest Territories its rightful place in Canada.

APPENDIX A

GOVERNMENT FINANCIAL SITUATION

FISCAL POSITION AND OUTLOOK

1990-91 FISCAL POSITION

During the 1980's, the Northwest Territories' fiscal position was relatively strong and, on average, the Government of the Northwest Territories had balanced budgets. However, lower expected revenue growth and rising expenditure pressures will make balancing budgets increasingly difficult.

Because of its vast area and its unique geographical and social circumstances, the Northwest Territories has a low fiscal capacity relative to its per capita expenditure needs. As a result, the Formula Financing grant from the Government of Canada is expected to amount to 73 per cent of the Government of the Northwest Territories' 1990-91 revenues. High federal government deficits and debt have caused the federal government to curtail the growth in the grant in 1990-91 and subsequent years. In spite of this, the Government of the Northwest Territories will come close to balancing its budget in 1990-91. At the end of 1990-91, the Government of the Northwest Territories will still have an accumulated surplus.

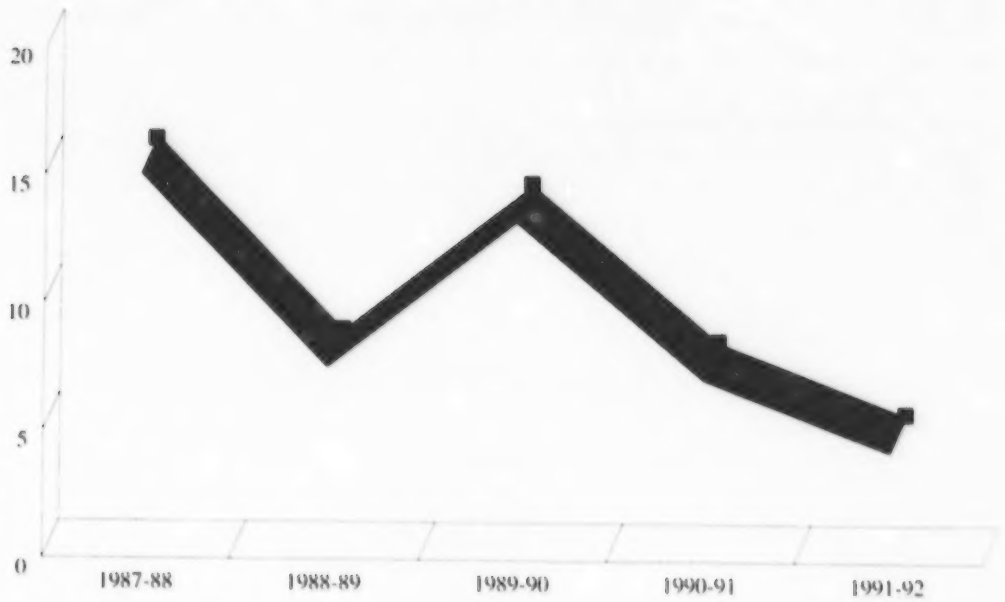
In 1990-91, total expenditures are expected to be $1,041.6 million, or about $39.9 million higher than forecast in the 1990-91 budget. Total revenues in 1990-91 will be $1,020 million, or $35.8 million higher than forecast. Higher expenditures are largely due to both increased costs and demand for health and education services as well as to the carryover of capital expenditures from 1989-90. Revised estimates for Health and Education programs alone will be $21.9 million higher than originally forecast. Some of this amount will be offset by higher federal transfers under cost-shared programs. A deficit of $21.6 million is projected for 1990-91 and will be financed from the accumulated surplus. After accounting for the deficit, the accumulated surplus will be $33.6 million at the end of 1990-91. Table A1 summarises the changes in the forecast fiscal position since the 1990-91 Budget.

1991-92 FISCAL OUTLOOK

Revenues for 1991-92 are forecast at $1,079.1 million, an increase of 5.8 per cent, or $59.1 million, over the 1990-91 revised estimates. Of this increase, transfers from Canada will grow by 5.4 per cent, to $897.5 million, while own-source revenues will increase by 8 per cent to $181.6 million.

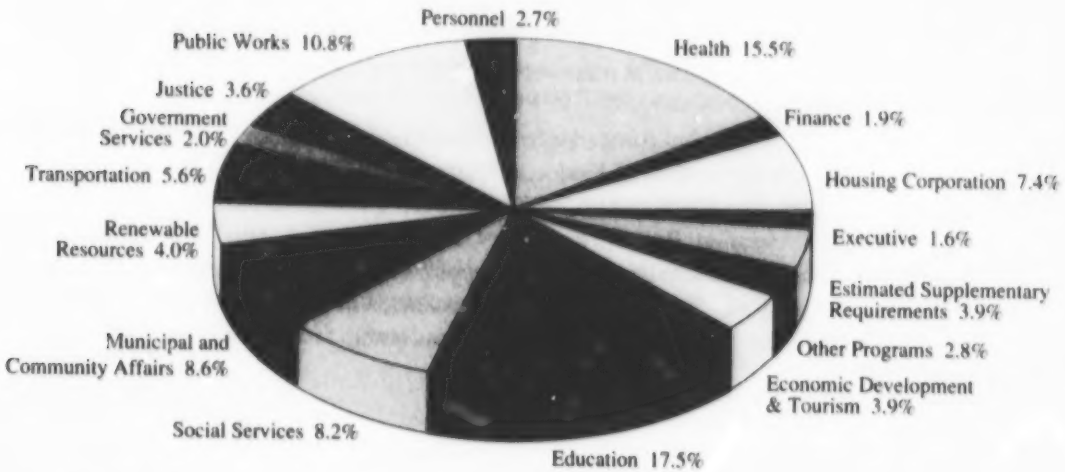
Before estimated supplementary appropriations and appropriation authority lapses are included, expenditures in 1991-92 are forecast to increase by 0.9 per cent over 1990-91 revised estimates, to $1,078 million. Operations and maintenance expenditures will grow by 3.4 per cent to $909.5 million, while capital expenditures will decrease by 10.7 per cent, to $168.5 million. This large decrease is partly because 1990-91 capital expenditures are

CHART A1
TOTAL GOVERNMENT EXPENDITURES
(year-over-year percentage change)



Sources: 1991-92 Main Estimates
Public Accounts

CHART A2
GOVERNMENT EXPENDITURES BY PROGRAM
1991-92



Source: 1991-92 Main Estimates

high due to $12 million in capital carryovers from 1989-90. When estimated supplementary appropriations and lapses are included, expenditures for 1991-92 are estimated to grow by 4.4 per cent, to $1,087 million, or $45.4 million over 1990-91 revised estimates. Chart A1 shows expenditure growth since 1987-88. Table A2 provides a detailed outline of five-year expenditures by program while Chart A2 illustrates the distribution of 1991-92 expenditures among programs.

A small deficit of $7.9 million is forecast for 1991-92, which will be financed from the accumulated surplus. The accumulated surplus will amount to an estimated $25.7 million at the end of 1991-92. A five-year review of overall revenue and expenditure levels can be found in Table A3.

HISTORICAL FISCAL TRENDS - 1987-88 to 1990-91

Over the period 1987-88 to 1990-91, Government of the Northwest Territories budgetary revenues and expenditures, on a public accounts basis, have grown at average annual rates of 9.9 and 9.3 per cent respectively. However, these rates do not accurately reflect trends in expenditure and revenue growth because of the transfer of programs from the federal government during this period.

As part of the process of devolution of powers from the federal to the territorial level of government, the Government of the Northwest Territories has assumed delivery responsibility for a number of federal programs since 1987-88. In return, it has been compensated with increases in federal cash transfers. These increased transfers have ranged in size from $53 million in 1988-89 to $79 million in 1990-91. Including these transfers results in overestimates of underlying trends in revenues and expenditures. After adjusting for program transfers, from 1987-88 to 1990-91, revenues as measured by the Northwest Territories Public Accounts will have grown at an annual rate of 7.0 per cent while expenditures will have grown at a slower rate of 6.5 per cent.

In order to make meaningful comparisons of these trends with those in other provinces, it is necessary to use the system of Financial Management Statistics (FMS) developed by Statistics Canada. The FMS system, which includes quasi-government bodies, such as Workers' Compensation Boards, as part of the government, adjusts provincial and territorial public accounts so that the treatment of public sector transactions is consistent across all jurisdictions. This eliminates inconsistencies in the data created by different accounting practices and different government structures.

TRENDS IN EXPENDITURE GROWTH

From 1987-88 to 1990-91, the last year for which FMS data is available, Northwest Territories budgetary expenditures will have increased by 7.7 per cent per year, from $850.9 million to $1,063.3 million. When program transfers are excluded, this average growth rate is reduced to 5 per cent. Provincial expenditures, on average, have been increasing at an annual rate of 4.9 per cent over the same period. However, the population of the Northwest Territories has grown faster than that of the provinces over this period. On a per capita basis, Northwest Territories expenditures, adjusted for program transfers, will have grown at an average annual rate of 3.5 per cent compared to 3.6 per cent for the provinces, from 1987-88 to 1990-91. Per capita program expenditures, that is, total expenditures less debt servicing costs, have grown at average annual rates of 3.3 and 4 per cent for the Northwest Territories and the provinces respectively. These rates are less than the average annual increase in the Consumer Price Index of 4.7 per cent.

TRENDS IN REVENUE GROWTH

Over the period 1987-88 to 1990-91, Northwest Territories own-source revenues, as measured by the FMS system and adjusted for program transfers, will have grown an average of 9.5 per cent per year, from $172.4 million to $226.5 million. Of this increase, $12.9 million is due to changes in Northwest Territories tax rates over the same period. Over this period, provincial own-source revenues will have grown by $22.6 billion, or 7.8 per cent annually.

From 1987-88 to 1990-91, the Formula Financing grant to the Northwest Territories will have grown by 8.4 per cent per year. However, after program transfers are accounted for, this growth rate is 4.3 per cent. This is comparable to the growth rate of federal general-purpose transfers received by the provinces. These transfers will have increased an average of 4.1 per cent annually over the same period. However, the two growth rates are not directly comparable because of the different methods used to calculate transfer payments to the provinces and territories. Nonetheless, changes in the federal contribution to territorial and provincial revenues have been similar. On a per capita basis, the growth rates of general-purpose transfers for the Northwest Territories and the provinces are both 2.9 per cent.

DEBT SERVICING CHARGES

Because the Northwest Territories has little debt, debt servicing costs as a proportion of both 1990-91 revenues and total expenditures will be 0.5 per cent. For the provinces, debt charges will be 11.9 per cent of total revenues and 11.8 per cent of total expenditures.

FINANCIAL ASSETS AND LONG-TERM DEBT OF GOVERNMENT ENTITIES

FINANCIAL ASSETS

The Government of the Northwest Territories has established two loan funds to provide financial assistance to students and small businesses. Since its inception, the Student Loan Fund has helped post-secondary students defray the cost of higher education. The authorized limit for outstanding loans since 1990-91 is $11 million. At the close of 1990-91, this fund will have assets of $9.4 million in the form of outstanding student loans. In 1991-92, new loans, net of loans repaid or written off, are expected to be $461,000.

The Business Loans and Guarantees Fund was set up to support small businesses and to develop and diversify the Northwest Territories economy. The fund has advanced loans to businesses at low interest rates and with favourable repayment terms. It has also acted as a guarantor to help businesses secure loans from financial institutions. Legislation will be enacted in 1991 to change the fund to a crown corporation under the Northwest Territories Business Credit Corporation Act. Since 1989-90, the authorized limit for outstanding loans has been $20 million. At year-end 1990-91, the fund will have assets of $15.3 million in the form of outstanding loans. In 1991-92, loans granted, net of loans retired, are estimated to be $1.9 million.

The Government of the Northwest Territories' financial assets also include loans to municipalities and school boards. These loans have been used to support schools and to build and maintain municipal infrastructure. Outstanding loans as of March 31, 1991 are expected to be $48.5 million. With new loans, net of loans retired in 1991-92 estimated at $15.6 million, outstanding loans will be $64.2 million by March 31, 1992.

Government of the Northwest Territories assets from all these outstanding loans will be $73.2 million at the end of 1990-91. This amount is projected to increase to $91.2 million by March 31, 1992.

LONG-TERM DEBT

The Northern Canada Power Commission was purchased from the federal government in 1988 by the Northwest Territories Power Corporation (NWTPC), a crown corporation set up by the Government of the Northwest Territories. To finance this purchase, the Government of the Northwest Territories advanced $53.5 million to the NWTPC, which the government had raised from a note issue. This liability was assumed on behalf of the NWTPC by the Government of the Northwest Territories. It is offset by an asset of equal value in the form of a NWTPC promissory note. By year-end 1990-91, the NWTPC will have retired $16.1 million of this debt. In 1989, with the Government of the Northwest Territories as its guarantor, the NWTPC borrowed an additional $20 million on the

financial markets to finance its capital expenditures. A sinking fund will be established for these debentures starting in 1995. Amounts deposited annually in this fund will, with interest earned, be sufficient to retire the debentures in 2009. At year-end 1991-92, the NWTPC will have an outstanding debt of $52.1 million.

The Northwest Territories Housing Corporation (NWTHC) was set up to assist lower-income residents of the Northwest Territories to maintain adequate housing at reasonable cost. The NWTHC has borrowed substantial amounts in past years to finance the construction of physical assets, such as housing units in northern communities, and also for land development. At the end of fiscal year 1990-91, the Corporation will have a long-term debt of $95.0 million. About $94 million of this is owed to the Canada Mortgage and Housing Corporation for funds borrowed prior to 1986. Since 1986, there has been no significant borrowing. These loans are guaranteed by the Government of the Northwest Territories. About $294,000 of the debt is expected to be retired in 1991-92. Almost all of the remaining amount will be repayable in annual instalments until the year 2033.

Total debt owed by these two crown corporations will be $152.5 million by the end of 1990-91. With $5.7 million expected to be repaid in 1991-92, total debt at the end of 1991-92 will be $146.8 million. Of this, $32.1 million will be owed by the NWTPC to the Government of the Northwest Territories. Table A4 summarizes the financial assets and long-term debt of Government of the Northwest Territories entities.

Estimated on a FMS basis, the Northwest Territories is expected to have net per capita financial assets of about $2,100 at the end of 1990-91. Large provincial deficits incurred over past years mean that the provinces are expected to have net per capita financial liabilities. Provincial net per capita debt is projected to reach about $2,800 by year-end 1990-91.

TABLE A1
GOVERNMENT OF THE NORTHWEST TERRITORIES
PROJECTED FISCAL POSITION AT MARCH 31, 1991

($ millions)

	1989-90 FINAL RESULTS				1990-91 PROJECTED RESULTS			
	1990-91 Budget Address	1989-90 Actuals	Increase (Decrease)	Explanation	1990-91 Budget Address	Current Forecast	Increase (Decrease)	Explanation
Revenues	955.5	965.3	9.8	2.9, grant adjustment for nurses pay equity settlement 5.5, prior-year recoveries 1.4, escalator increases	984.2	1,020.0	35.8	10.8, highways transfer 4.2, extended EDA 5.7, health cost-sharing 6.2, revised grant estimates 8.9, other revenue increases
Expenditures	975.5	972.0	(3.5)	Lower capital expenditures	1,001.7	1,041.6	39.9	10.8, highways transfer 16.0, health services 12.0, capital carryovers 1.1, other expenditure increases
Annual Deficit	20.0	6.7	(13.3)		17.5	21.6	4.1	
ACCUMULATED SURPLUS								
Opening Balance	66.9	66.9	0.0		41.9	55.2	13.3	
Less: Allocation to Business Loan Fund and Student Loan Fund	5.0	5.0	0.0		0.0	0.0	0.0	
Annual Deficit	20.0	6.7	(13.3)		17.5	21.6	4.1	
Accumulated Surplus (Closing Balance)	41.9	55.2	13.3		24.4	33.6	9.2	

TABLE A2
FIVE-YEAR EXPENDITURE SUMMARY BY PROGRAM
1987-88 TO 1991-92

($ thousands)

PROGRAM	1987-88 ACTUALS	1988-89 ACTUALS	1989-90 ACTUALS	1990-91 REVISED FORECAST	1991-92 MAIN ESTIMATES
Legislative Assembly	5,108	5,966	9,079	8,959	9,209
Executive	13,131	14,901	15,778	18,409	18,345
NWT Housing Corporation	74,168	70,880	82,555	79,992	82,965
Finance	10,663	18,701	20,989	21,408	21,120
Culture & Communications	7,698	7,532	9,619	12,355	13,621
Personnel	25,255	27,081	30,109	33,299	29,852
Justice	28,799	32,962	35,179	39,564	40,006
Safety & Public Services	3,428	3,926	5,043	5,799	6,282
Government Services	21,441	21,833	24,132	23,590	22,404
Public Works	96,655	105,121	105,952	118,799	120,952
Transportation	35,411	32,529	38,046	49,060	63,187
Renewable Resources	39,061	38,631	53,495	44,453	45,107
Municipal & Community Affairs	90,693	77,410	94,269	107,891	96,756
Health	97,888	149,323	161,579	178,444	173,559
Social Services	61,980	73,202	78,417	89,630	92,292
Energy, Mines & Petroleum Resources	1,564	2,678	3,800	3,965	2,710
Economic Development & Tourism	25,968	28,826	33,370	45,494	43,102
Education	158,742	146,539	170,587	187,507	196,514
TOTAL O & M AND CAPITAL	797,653	858,041	971,998	1,068,618	1,077,983
Estimated Supplementary Appropriations less Lapses	0	0	0	(27,000)	9,000
SUB TOTAL	797,653	858,041	971,998	1,041,618	1,086,983
Growth (%)	15.10	7.57	13.28	7.16	4.36
Projects for Third Parties	46,886	35,990	34,245	37,314	41,008
TOTAL EXPENDITURES	844,539	894,031	1,006,243	1,078,932	1,127,991

Sources: 1991-92 Main Estimates
Public Accounts

TABLE A3
FISCAL POSITION OF THE NORTHWEST TERRITORIES
1987-88 TO 1991-92

($ thousands)

	1987-88 ACTUALS	1988-89 ACTUALS	1989-90 ACTUALS	1990-91 REVISED FORECAST	1991-92 MAIN ESTIMATES
TOTAL REVENUES	769,197	876,761	965,280	1,019,996	1,079,086
O & M Expenditures	636,221	750,495	831,478	879,901	909,470
Capital Expenditures	161,432	107,546	140,520	188,717	168,513
Estimated Supplementary Appropriations less Lapses	0	0	0	(27,000)	9,000
TOTAL EXPENDITURES	797,653	858,041	971,998	1,041,618	1,086,983
SURPLUS (DEFICIT)	(28,456)	18,720	(6,718)	(21,622)	(7,897)
LOAN FUNDS & OTHER ADJUSTMENTS	5,451	6,333	(5,000)	0	0
ACCUMULATED SURPLUS (CLOSING BALANCE)	41,843	66,896	55,178	33,556	25,659

Sources: 1991-92 Main Estimates
Public Accounts

TABLE A4
FINANCIAL ASSETS AND LONG-TERM DEBT OF GOVERNMENT ENTITIES

($ thousands)

FINANCIAL ASSETS OF GOVERNMENT ENTITIES	1989-90	1990-91P	1991-92
STUDENT LOAN FUND			
Opening Balance	8,228	8,840	9,401
New Loans	1,999	2,047	2,047
LESS: Loans Repaid or Written Off	1,387	1,486	1,586
Closing Balance	8,840	9,401	9,862
BUSINESS LOAN FUND			
Opening Balance	11,244	13,261	15,261
New Loans	4,663	5,500	5,700
LESS: Loans Repaid or Written Off	2,646	3,500	3,800
Closing Balance	13,261	15,261	17,161
MUNICIPAL/SCHOOL BOARD LOANS			
Opening Balance	17,831	32,789	48,522
New Loans	16,922	17,983	19,000
LESS: Loans Repaid or Written Off	1,964	2,250	3,364
Closing Balance	32,789	48,522	64,158
TOTAL	54,890	73,184	91,181

LONG-TERM DEBT OF CROWN CORPORATIONS	1989-90	1990-91P	1991-92P
NORTHWEST TERRITORIES POWER CORPORATION			
Opening Balance	68,150	62,800	57,450
New Borrowing	0	0	0
LESS: Principal Payments	5,350	5,350	5,350
Closing Balance	62,800	57,450	52,100
NORTHWEST TERRITORIES HOUSING CORPORATION			
Opening Balance	95,742	95,295	95,001
New Borrowing	0	0	0
LESS: Principal Repayments	447	294	311
Closing Balance	95,295	95,001	94,690
TOTAL	158,095	152,451	146,790

P - Projected
Sources: 1991-92 Main Estimates
Public Accounts

APPENDIX B

GOVERNMENT REVENUES

REVENUE GROWTH

Total revenues of the Government of Northwest Territories, excluding projects undertaken on behalf of third parties, are expected to grow at an annual rate of 5.8 per cent in 1991-92, to $1,079 million, a rate of growth similar to that experienced in 1990-91. Table B1 summarizes the evolution of Government of Northwest Territories revenues from 1986-87 to 1991-92.

TABLE B1
SIX-YEAR REVENUE SUMMARY BY SOURCE

($ thousands)

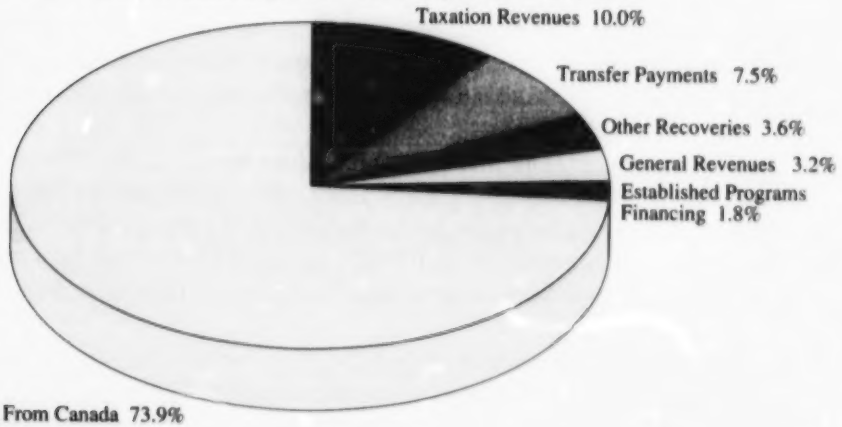
	1986-87 ACTUALS	1987-88 ACTUALS	1988-89 ACTUALS	1989-90 ACTUALS	1990-91 REVISED FORECAST	1991-92 MAIN ESTIMATES
Grant from Canada	498,989	572,213	657,501	697,312	746,625	797,980
Individual Income Tax	38,528	39,550	45,311	57,303	58,829	64,827
Corporate Income Tax	19,760	5,542	(123)	17,798	13,144	14,320
Fuel Taxes	9,670	8,982	9,186	9,739	11,862	12,607
Tobacco Taxes	4,698	5,362	5,338	7,897	9,748	9,932
Property Taxes	3,746	4,927	4,508	2,913	4,876	5,141
Insurance Taxes	643	636	689	783	720	775
TOTAL TAXATION REVENUES	77,045	64,999	64,909	96,433	99,179	107,602
Liquor Control System	10,180	10,484	11,531	12,689	15,195	14,499
Interest Income	10,882	9,475	12,373	13,241	10,396	11,639
Licences, fees & permits	3,942	4,411	4,643	7,425	7,137	8,461
TOTAL GENERAL REVENUES	25,004	24,370	28,547	33,355	32,728	34,599
Established Programs Financing	17,062	24,705	21,186	19,360	23,549	18,997
Other Transfer Payments	48,325	53,891	68,459	78,985	81,671	80,563
Recoveries	36,500	29,019	36,159	39,835	36,244	39,365
TOTAL	702,925	769,197	876,761	965,280	1,019,996	1,079,086
Projects on behalf of Third Parties	30,827	46,886	35,990	34,245	37,314	41,008
TOTAL REVENUES	733,752	816,083	912,751	999,525	1,057,310	1,120,094

Sources: 1991-92 Main Estimates
Public Accounts

The projected growth rates for 1990-91 and 1991-92 are lower than those of the previous three years, during which the average annual rate of growth is estimated to have been 11.2 per cent. This largely reflects reduced growth in the grant from Canada as a result of the changes in the Formula Financing Agreement which were introduced in 1988 and 1990. The grant from Canada accounts for 74 per cent of total government revenues.

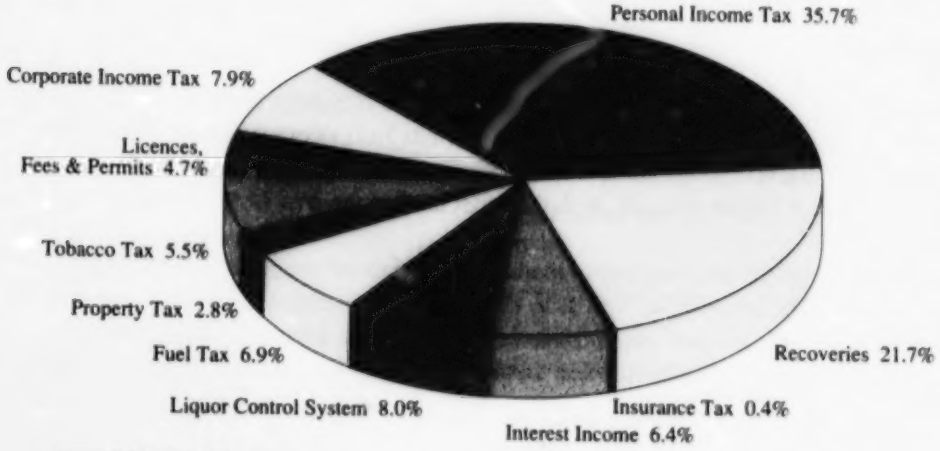
Chart B1 shows the distribution of expected 1991-92 revenues. The government's own-source revenues (all revenues except transfer payments from the federal government) are expected to amount to $182 million in 1991-92, or 17 per cent of the total. This ratio has not changed significantly over the last six years. Chart B2 shows the distribution of projected own-source revenues in 1991-92.

CHART B1
GOVERNMENT REVENUES, 1991 - 1992



Source: 1991-92 Main Estimates

CHART B2
OWN-SOURCE REVENUES, 1991 - 1992



Source: 1991-92 Main Estimates

Revenues from some sources such as personal income taxes and tobacco taxes have increased substantially. On the other hand, other revenues such as corporate income taxes and recoveries have either grown little or have fallen since 1986-87. Their relative size has therefore declined. Personal income tax revenues, including prior year adjustments, have grown at an average rate of 11 per cent a year since 1986-87, and now account for more than one-third of total own-source revenues. Since the Northwest Territories levies its personal income tax as a percentage of Basic Federal Tax and since the Northwest Territories tax rate increased by only one percentage point during this period, almost all of this increase is a result of higher Basic Federal Tax.

Growth in personal income tax revenues is due to several factors. Firstly, the Northwest Territories experienced strong growth between 1987 and 1989. During that period, Northwest Territories employment grew by an average of 4.6 per cent a year and average weekly earnings in the Northwest Territories grew by 4.3 per cent a year. Secondly, certain federal income tax changes have increased Government of the Northwest Territories revenues. Since 1987, northern housing and travel allowances and subsidized employer housing have been taxable. The Northern Residents Deduction has not, in many cases, offset the increased taxation of these benefits.

The revenue impact of the increase from 43 to 44 per cent in the personal income tax rate in 1990 is relatively small compared to the other factors outlined above. Revenues in 1989-90 were particularly high, due to an adjustment for prior year taxes. This explains why personal income tax revenues in 1990-91 increased by less than 3 per cent. The average annual increase over the past three years has, however, been more than 14 per cent.

Corporate income tax revenues have been highly volatile due to heavy dependence on a small number of taxpayers in the mining and oil and gas industries. Revenues are expected to grow from $13 million in 1990-91 to $14 million in 1991-92, primarily due to higher taxable incomes in the oil and gas sector. The proposed reduction in the income tax rate charged on the first $200,000 of income earned by Canadian-controlled private corporations is expected to offset the effect of higher taxable income in this sector. Fluctuating world oil prices will affect oil company profits, and therefore taxes from the oil and gas sector. These income tax projections could vary considerably due to oil price changes.

Fuel tax revenues are also affected by movements in world oil prices. Estimates of fuel tax revenues for 1991-92 were based on the assumption that fuel prices would remain close to their average 1990 levels. Projected increases to fuel tax revenues in 1990-91 and 1991-92 are primarily due to higher demand, including fuel used in the new Colomac mine.

Increases to tobacco tax rates and liquor markups in the last two budgets were introduced to promote healthier lifestyles as well as to provide more revenues for the government. Consumption of both alcohol and tobacco is declining, but revenues from both these sources have increased, an indication that these measures are having their desired effects.

Revenues from the Northwest Territories Liquor Commission are expected to be 20 per cent higher in 1990-91 than in the previous year as a result of the higher markups imposed in the 1990-91 budget. At the same time, there has been a reduction in the consumption of alcoholic beverages since 1988. For example, per capita beer consumption in 1990 was 10 per cent lower than in 1988. In 1991-92, revenues are expected to fall slightly, assuming that the trend to reduced consumption of alcoholic beverages continues.

Tobacco tax revenues are expected to increase by 23 per cent in 1990-91 as a result of an increase in the tax rate on cigarettes from 55 to 60 per cent of the Yellowknife price, of an increase in the tax rate on loose cigarette tobacco from 25 per cent to 40 per cent of the price, and of higher product prices on which the taxes are based. Sales of tobacco products are continuing to decline, but revenues are still expected to increase slightly in 1991-92 because of price increases and because of the previously announced increase in the tax rate on loose tobacco from 40 to 60 per cent of the price.

Revenues from licences, fees and permits are expected to increase by $1.3 million, or 18.6 per cent, in 1991-92. This reflects a number of fee increases which will be introduced in the coming fiscal year. Table B2 provides a breakdown of these increases by department.

TABLE B2
ADDITIONAL REVENUE FROM LICENCES FEES AND PERMITS, 1991-92

($ thousands)

Department	Revenue Affected	Estimated Additional Yield
Renewable Resources	Game Licences & Fees	198
	Timber Permits	25
Justice	Legal Registries Fees	138
Transportation	Drivers' Licences	629
Safety & Public Services	Elevator Fees & Permits	6
	Boiler and Pressure Vessel Fees and Permits	60
	Gas Line and Meter Fees & Permits	12
	Lottery Licensing Fees	188
	Medical Profession Registration Fees	30
TOTAL		1,286

Changes to the pricing of drivers' licences are estimated to yield $629,000 in additional revenues in each of 1991-92 and 1992-93. About $63,000 of the increase reflects the increase in the annual licence fee from ten dollars to twelve dollars, which will be used to defray the cost of adding drivers' photographs to licences. About $566,000 will be a one-time increase in 1991-92 and 1992-93 because the term of the licence will increase from two to five years. Because drivers will be required to renew their licences less frequently, revenues from this source are not expected to be as high in subsequent years.

GRANT FROM CANADA

The largest single revenue source for the Government of the Northwest Territories is the grant from Canada, accounting for 74 per cent of the expected $1,079 million in revenue for 1991-92. Table B3 summarizes how the 1991-92 grant is calculated.

The grant for a given year is obtained by subtracting eligible revenues from an expenditure base. The expenditure base, expected to reach $1,010 million in 1991-92, is equal to 1982-83 actual revenues, escalated by the three-year average growth rate of total provincial and local government expenditures in Canada. Since 1988, the rate of growth in the expenditure base has been limited to the three-year average growth rate of nominal Canadian Gross Domestic Product. As a result, in times of recession, the Government of the Northwest Territories is likely to face additional limits on its revenues. Starting in 1990-91, the base is also adjusted for the three-year average rate of population growth of the Northwest Territories, relative to that of Canada.

From the expenditure base are subtracted "eligible" revenues. Eligible revenues consist of "hypothetical own-source revenues", and certain other transfers from Canada. For any given year, hypothetical revenues include tax revenues, and most fees, licences and liquor profits, calculated using that year's actual volumes or sales, and the tax or recovery rates in effect during 1987-88. A portion of these hypothetical revenues is adjusted by two factors, intended by the federal government to correct a perceived lower tax effort by the Government of the Northwest Territories. The first of these factors is the "tax effort adjustment factor". It is derived from a comparison of Northwest Territories "tax effort", or average tax rates in 1987-88 compared to the provinces. In addition, a second factor, the "keep-up" factor, is derived from a measure of changes in average provincial and local government tax effort since 1987-88.

The tax effort adjustment factor was originally calculated to be 1.375. In recognition of special northern conditions, the tax effort adjustment factor was arbitrarily reduced by 15 per cent. It is also being phased in over three years. In 1991-92, the tax effort adjustment factor, after the phase-in and 15 per cent reduction, is expected to be 1.127, while the "keep-up" factor is estimated to be 1.044.

Some revenues, such as interest income, are not adjusted, but are subtracted from the expenditure base at their unadjusted values, since the Government of the Northwest Territories has no control over the rates for these revenues.

Similarly, transfers from the federal government, such as Established Programs Financing and Canada Assistance Plan payments, are subtracted from the expenditure base without being subject to adjustment.

Some revenues are considered "excluded" revenues, and are not taken into account in the calculation of the grant. These include incremental tax revenues due to tax rate increases since 1987-88, new revenues introduced since 1987-88, and certain specified revenues, recoveries and transfers from Canada.

TABLE B3
ESTIMATED GRANT FROM CANADA
1991-92
($ thousands)

GROSS EXPENDITURE BASE		1,010,008
LESS: ADJUSTED HYPOTHETICAL OWN-SOURCE REVENUES		
HYPOTHETICAL OWN-SOURCE REVENUES SUBJECT TO ADJUSTMENT	133,033	
times TAX EFFORT ADJUSTMENT FACTOR	1.12656	
times KEEP-UP FACTOR	1.04433	
equals	156,514	156,514
LESS: UNADJUSTED HYPOTHETICAL OWN-SOURCE REVENUES		440
LESS: OTHER REVENUES		9,323
LESS: OTHER TRANSFERS		45,751
GRANT FROM CANADA		$797,980

TABLE B4
INTERPROVINCIAL TAX RATE COMPARISON
AS OF JANUARY 1, 1991

Province/Territory	Personal Income Tax %	Retail Sales Tax %	Fuel Taxes			Tobacco Taxes		Annual Health Care ($)(n)	Payroll Tax (%)(o)	Corporate Income Tax		Capital Tax (%)(q)
			Gasoline Unleaded ¢/litre	Diesel ¢/litre	Aviation ¢/litre	Cigarettes $/carton	Tobacco ¢/gram			Small %	Large %	
Northwest Territories	44.0		11.2 (i)	9.5	1.0	13.40	5.90 (m)			5 (p)	12	
Yukon	45.0		4.2	5.2	0.7	6.40	1.14			5	10	
British Columbia	51.5	6	11.0	11.4	3.4	12.72	4.90	372/744		9	14	-/2.0
Alberta	46.5 (b)		7.0	7.0	5.0	11.20	3.00	276/552		6	15	-/2.0
Saskatchewan	50.0 (c)	7	10.0	10.0	10.0	13.36	2.70			10	15	0.5/3.0
Manitoba	52.0 (d)	7	9.0	9.9	5.8	14.00	4.30		2.25	10	17	0.3/3.0
Ontario	53.0 (e)	8	11.3	10.9	2.1	9.66	4.83		1.95	10	15.5	0.3/0.8
Quebec	N/A (f)	8	10.0 (j)	8.6	8%	9.52	2.05		3.45	3.45	6.33	0.52/1.04
New Brunswick	60.0	11	11.5	11.6	2.2	14.40	3.96			9	16	-/3.0
Nova Scotia	59.5 (g)	10	13.8	16.4	1.0	13.60	5.25			10	16	-/3.0
Prince Edward Island	57.0 (h)	10	13.6	13.8	0.7	14.00	2.13			10	15	-/2.5
Newfoundland	62.0	12	12.4 (j)	13.5	0.7	10.56	3.50		1.50	10	17	-/3.0
Canadian Average (a)	52.5	7.2	10.5	10.2	3.4	10.75	3.81		1.72	7.8	13.03	0.3/1.5
Average Including Sales Taxes				11.7(k)	11.1(k)	12.76(l)	4.63(l)					

(a) Average of all provincial and territorial rates, weighted by population.
(b) Alberta also imposes a flat tax of 0.5% of taxable income and a surtax of 8% of provincial tax over $3,500.
(c) Saskatchewan also imposes a flat tax of 2% of net income and a surtax of 12% of provincial tax including flat tax over $4,000.
(d) Manitoba also imposes a flat tax of 2% of net income and a surtax of 2% of net income over $30,000 with additional offsets for dependants.
(e) Ontario also imposes a surtax of 10% of provincial tax over $10,000.
(f) Quebec levies a personal income tax directly against taxable income.
(g) Nova Scotia also imposes a surtax of 10% on all provincial tax over $10,000.
(h) Prince Edward Island also imposes a surtax of 10% of provincial tax over $12,500.
(i) A lower rate of 6.7 cents applies to communities not served by the highway system in the Northwest Territories.
(j) Lower rates apply to remote areas of the province.
(k) Quebec applies sales tax to fuel.
(l) Manitoba, Ontario, Quebec, New Brunswick, Nova Scotia and Newfoundland apply provincial sales tax to sales of tobacco.
(m) A lower rate of 3.9 cents per gram applies to tobacco used to roll cigarettes. This rate is scheduled to increase to 5.9 cents April 1, 1991.
(n) Rates shown for health care premiums are for single individuals and families of three or more.
(o) Rates shown are for payrolls over $400,000.
(p) Rates reduced from 8 to 5 per cent for the first $200,000 of active business income for Canadian controlled private corporations effective July 1, 1991.
(q) Rates shown for large corporations and for financial institutions in the order shown.

APPENDIX C

ECONOMIC SITUATION AND OUTLOOK

The performance of the economy of the Northwest Territories deteriorated significantly in 1990. By the second half of the year, key economic indicators confirmed that the economy was in recession.

The Northwest Territories economy is very sensitive to market conditions for its main exports and to the economic and fiscal policy environment. Despite the reduction in exploration expenditures, mining activity had an overall positive effect on economic performance in 1990. Prices for mineral exports - gold, zinc, silver and lead - have had a mixed performance over the last two years. Average base metal prices were higher over the past two years but fell in late 1990. Gold prices fell by about 15 per cent in 1989 and remained at that lower level last year. At current levels, gold prices are squeezing margins for existing producers and reducing prospects for additional exploration and development activity. The average price of oil increased significantly in both 1989 and 1990.

Production volumes also had a mixed performance. Gold production increased by 9 per cent in 1989 and is forecast to have increased by 25 per cent in 1990. Zinc and lead production experienced large reductions in 1989 when Pine Point milling operations ceased. In 1990, zinc production is forecast to have stabilized and lead production to have increased by about 25 per cent. Oil and gas production levels were comparable to those of 1989. Mining also contributed significantly to investment as a result of the development and start-up of the Colomac mine.

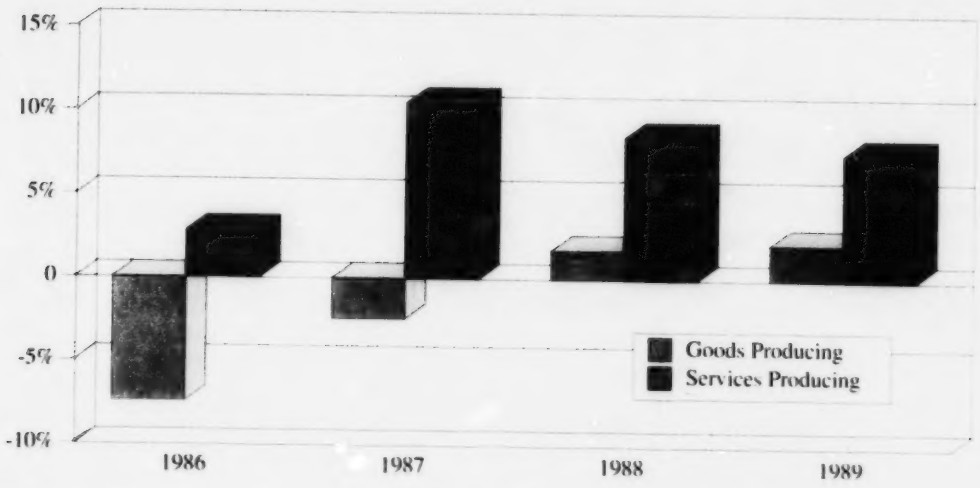
The fiscal policy environment of the past two years, on the other hand, had an unfavourable effect on the economy. Firstly, the prolonged period of high and rising interest rates had a dampening effect on business activity. The high interest rate differentials between Canada and the United States have kept the exchange rate of the Canadian dollar vis-a-vis the United States dollar at a ten-year high. These factors lower the relative profitability of prospective resource developments in the Northwest Territories and the profitability of existing firms. Secondly, the elimination of tax incentives for exploration caused a progressive drying up of new mining exploration expenditures in the Northwest Territories. Thirdly, the reduction in the growth of funding received by the Government of the Northwest Territories from the federal government caused total territorial program expenditures to decline in real terms in 1990-91. Given the importance of the government sector in the economy of the Northwest Territories, this reduction was an important contributor to the economic downturn.

ECONOMIC PERFORMANCE IN 1990

Economic activity declined in 1990. It is expected that real Final Domestic Demand fell by 6 to 8 per cent last year and that real Gross Domestic Product fell by about 3 per cent. This fall was led by a large reduction in investment and by a decrease in real government expenditures. Total employment is expected to have fallen by 2.5 per cent.

CHART C1
GROSS DOMESTIC PRODUCT BY INDUSTRY, N.W.T.

(year-over-year percentage change)



Source: GNWT Bureau of Statistics

The current recession is expected to confirm an acceleration in the shift of economic activity from the goods producing sector to the services producing sector (Chart C1). The goods sector is composed of the renewable and non-renewable resource industries, of construction and of a minuscule manufacturing sector. From 1985 to 1989, the economy of the Northwest Territories has experienced an absolute decline in the value of output from the goods producing sector of 6.1 per cent. During the same period, output from the service producing sector increased by 32.5 per cent. This poor performance of the goods producing sector resulted in the value of goods production as a percentage of total production declining from 52.2 per cent in 1985 to 43.6 per cent in 1989. In terms of employment, goods producing industries accounted for 18 per cent of employment in 1989, down from 25 per cent in 1985.

Since the last recession in 1986-87 therefore, economic growth has been led and sustained by the service sector. Given that the service sector is dominated by government and related institutions, which account for approximately 60 per cent of that sector's employment, the economy's direct and indirect reliance on government has been increasing over the last few years. This does not bode well for future economic performance in view of the reduced growth in both territorial and federal government expenditures.

The effects and extent of the economic recession are being felt unequally among the regions of the Northwest Territories. The majority of the small communities did not participate in the economic expansion of the last few years and therefore will be left relatively unaffected by the recession. The same comment applies to certain sectors of the economy and notably to the traditional sector.

THE OUTLOOK IN DETAIL

CONSUMER DEMAND

Fuelled by healthy growth in personal income, real consumer expenditures increased by 3 to 4 per cent per year during 1988 and 1989. In 1990, however, growth in consumer spending was weaker as a result of a number of factors which include lower levels of employment, modest increases in real average wages and higher interest rates. The weakness was particularly noticeable in expenditures on goods which are expected to have barely kept pace with inflation. It was also exacerbated by the fact that a good proportion of the jobs lost through the winding down of large construction projects were held by temporary residents who left the Northwest Territories. Total real consumer expenditures on goods and services are expected to have grown by only 2 per cent in 1990.

For 1991, the outlook is for a continuation of weakness in consumer demand. Restraint in government expenditures, the completion of some large construction projects and the slowdown of operations at the Colomac mine suggest that employment may fall this year. The Goods and Services Tax should also have a dampening effect on expenditures on services.

HOUSING

Housing investment stabilized during 1990. After having declined by 23 per cent in 1989, housing investment fell by 2 per cent over the first nine months of 1990. For the year as a whole, housing investment should have remained at approximately its 1989 level. In 1991, the overall poor economic performance and the weak resale market in Yellowknife should more than offset the effect of forecast lower mortgage interest rates and further reduce total private sector housing investment.

PRIVATE AND PUBLIC INVESTMENT

Total private and public sector investment, including housing, is expected to have totalled only $660 million in 1990. This would represent a 25 per cent reduction from 1989 levels. This large decline comes mostly from reductions in private sector investment expenditures which are expected to fall to their second lowest level in more than a decade.

The fall in 1990 investment expenditures comes primarily from the winding down of major military projects and lower construction activity in mining and in commercial building. Military investment fell due to the completion of the Forward Operating Locations program and lower expenditures on the Long Range North Warning System. With completion of the construction phase of the Colomac mine and the absence of any new active mine development, mining construction expenditures were reduced. In the oil and gas industry, there were also significant reductions in investment expenditures. Although meters drilled increased by more than 35 per cent over their 1989 level, activity was centred in the

southwest portion of the territory where costs are but a fraction of those in the Beaufort Sea where 1989 activity took place. Finally, 1990 saw the completion of some major commercial construction projects in Yellowknife.

The outlook for 1991 is for a further reduction in investment expenditures. In the primary sector, there are no known planned major projects and no significant increase in exploration activity is expected. Mining exploration activity has been very adversely affected by the elimination of tax incentives that were provided by flow-through shares. In 1989, the last full year when flow-through financing was available through the Canadian Exploration Incentives Program, it is estimated that up to 50 per cent of total exploration expenditures in the Northwest Territories were financed through that program. Mining investment will also be held back until there is improvement in the difficult financing environment attributable to the recession, in lacklustre precious metal prices, in the unfavourable Canada-United States exchange rate and in the results of exploration programs which have been disappointing over the past three years. Assuming no significant improvements in these areas, investment should experience no increase this year. Oil and gas investment expenditures are also expected to be lower this year although the possible resumption of some drilling in the Beaufort next summer would increase forecast expenditures. The extremely volatile oil prices resulting from the Middle East conflict are not likely to affect near-term activity in the Northwest Territories where most projects are very long-term in nature.

Investment in the service sector should fall further in 1991. Commercial construction activity will be lower than last year and government expenditure growth is falling. The value of building permits issued in the Northwest Territories' six largest municipalities fell by approximately one-third last year and their levels in the last quarter suggest that there will not be a recovery in building activity in 1991.

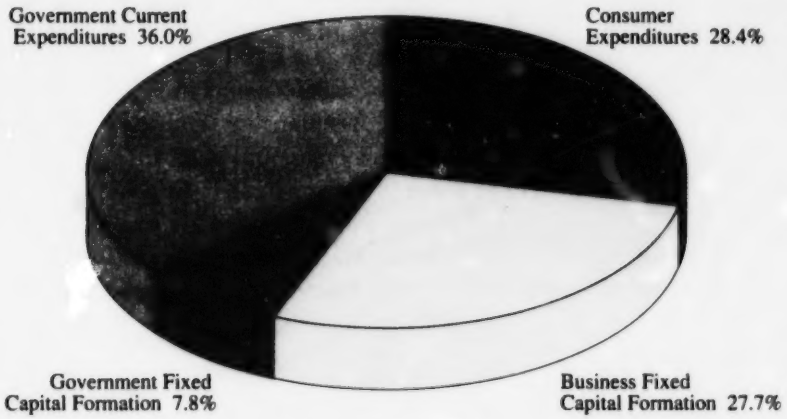
GOVERNMENT EXPENDITURES

Government current expenditures, i.e., expenditures of the three levels of government excluding capital expenditures and transfer payments to individuals and corporations, represented 36 per cent of Final Domestic Demand in 1989. This is an extremely high percentage compared to the national average of 19 per cent. When government capital expenditures are included, the percentages increase to 44 per cent for the Northwest Territories and 21 per cent for Canada. Government expenditures are therefore a major determinant of the performance of the economy of the Northwest Territories (Chart C2).

The growth in government current expenditures is being severely reduced and this is having a dampening effect on the economy. The reasons for reduced government expenditure growth are mostly traceable to reductions imposed by the federal government on the growth of its annual grant to the Government of the Northwest Territories. As a result of the 1988 and 1990 changes to the Formula Financing Agreement, total financial resources of the Government of the Northwest Territories, after adjusting for program transfers from the federal government, have grown at a rate only slightly above the rate of inflation in 1990.

For 1990, it is expected that government current expenditures, after adjustment for inflation, will not increase from their 1989 level. As for 1991, real government current expenditures will fall since the Formula Financing Agreement with the government of Canada continues to limit the growth in the financial resources available to the Government of the Northwest Territories.

CHART C2
FINAL DOMESTIC DEMAND, N.W.T.
1989


Government Current Expenditures 36.0%
Consumer Expenditures 28.4%
Government Fixed Capital Formation 7.8%
Business Fixed Capital Formation 27.7%

Source: Statistics Canada

THE MEDIUM-TERM OUTLOOK[1]

The economy of the Northwest Territories appears to have reached a turning point in its development. Some of the main forces that fuelled economic development and growth and accelerated the establishment of a modern market economy in the North over the past twenty years have been partly spent. This is expected to hold back economic growth during the next decade.

SOURCES OF ECONOMIC GROWTH OVER THE PAST TWENTY YEARS

Over the past twenty years, the economy of the Northwest Territories experienced above average rates of economic growth. The average annual growth rates of real Gross Domestic Product and real Final Domestic Demand were 4.8 and 4 per cent, respectively, compared to 3.5 and 3.7 per cent for Canada as a whole.

[1] This section draws on a medium-term forecast of the economy of the Northwest Territories developed by J.C. Stabler and E.C. Howe using the Northwest Territories Economic Model. Jack C. Stabler and Eric C. Howe, "Native Participation in Northern Development: The Impending Crisis in the NWT". *Canadian Public Policy*, Vol. XVI (3), 1990.

There were two major driving forces behind this economic expansion. The first of these was the development of the export-oriented mineral and hydrocarbons sectors. These sectors accounted for most of the 82 per cent increase in real exports since 1971. They also had a progressively greater effect on the rest of the economy through the increasing availability and use of the resident labour force and of local suppliers. In the case of oil and gas, the industry led a major expansion of economic activity caused by the second oil price shock and its accompanying policy driven exploration expenditures and by the building of the oil pipeline from Norman Wells to Alberta.

The second force was government expenditures and transfer payments. Government expenditures grew at higher rates than in the rest of Canada as the Northwest Territories' infrastructure was developed and as public services were expanded to levels more comparable to those available in the provinces. Over the 1971-1991 period, current government expenditures, after adjusting for inflation, are estimated to have increased by 88 per cent and real transfer payments to persons by 333 per cent. When associated with the high rate of population growth over the period and the inclusion of a larger percentage of the population in the wage economy, this rapid expansion of government in turn stimulated the expansion of the Northwest Territories' private service sector. Real consumer expenditures, for example, increased at an average annual rate of 6.2 per cent over the period compared with a rate of 3.7 per cent for Canada as a whole.

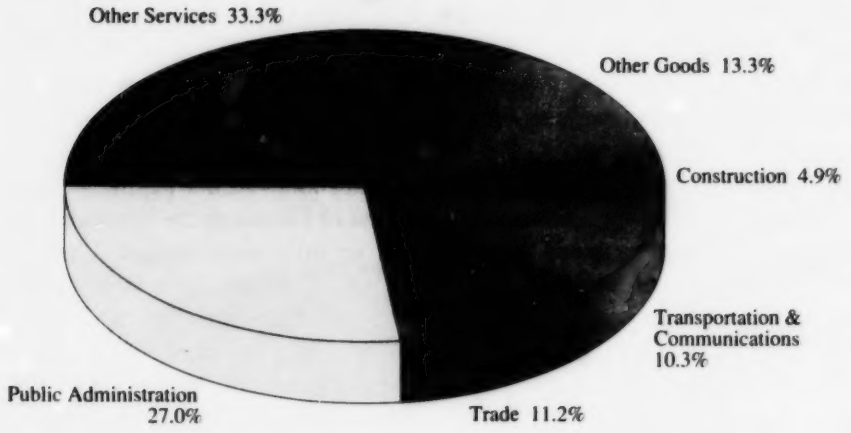
THE NEXT DECADE

Can the economy of the Northwest Territories continue to expand and develop in the 1990's at a pace comparable to what was experienced in the 1970's and 1980's? Given the limited diversification of economic activity, there are few sources from which growth can realistically be expected (Charts C3 and C4). In the non-renewable resources sector, mining should continue to be one of the key goods producing industries. The actual contribution of mining to future economic growth will of course depend on world market conditions for minerals and on the success rate of exploration activity in the Northwest Territories. It is therefore impossible to forecast. A reasonable assumption is that the mining industry will maintain the average rate of real growth experienced over the past twenty years. Investment expenditures would then grow at an average rate of 2 per cent per year, as would mineral exports [2]. This growth rate could be exceeded significantly if a number of new mines came into production, given the relatively narrow base of current mining production.

The contribution of oil and gas to future growth could be very significant. The construction of a gas pipeline along the Mackenzie Valley would provide a major stimulus to primary sector construction expenditures and to the associated business services sector in the second half of the 1990's. Hydrocarbons would replace minerals as the Northwest Territories' major export. The construction of the pipeline would also spur exploration and development activity in the Western Arctic and could lead to the emergence of oil and gas as the focus of subsequent economic development. The finalization of the Northern Accord would also provide a source of additional revenues for the Government of the Northwest Territories.

[2] This assumption is used by Stabler and Howe (1990), page 277.

CHART C3
EMPLOYMENT BY INDUSTRY, N.W.T.
1989



Source: Statistics Canada

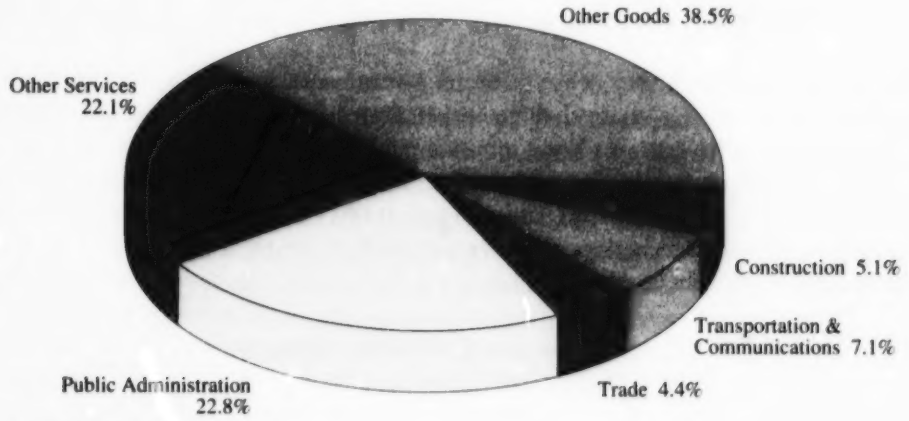
However, the oil and gas industry will not, of itself, ensure high levels of economic and employment growth. Firstly, it is a capital intensive industry which will continue to use imports for virtually 100 per cent of its physical inputs. Secondly, only a very limited percentage of its product can be expected to undergo transformation in the Northwest Territories. And finally, the high cost of developing and transporting oil and gas to markets outside the Northwest Territories will limit the economic rents that can be captured by governments and re-channelled to other sectors of the economy.

The renewable resources sector will continue to be an important source of income for harvesters but in view of its small relative size, its contribution to economic growth will remain marginal and unreflective of its contribution to community life.

As for the public sector, the maintenance of government expenditures as a key force of economic growth depends on Canadian public policy with respect to the north.

In the absence of a review of current standards and of the commitment of Canada to the development of the north and given the precarious state of federal finances, it will be increasingly difficult to experience the same growth in public expenditures as in the past. The gap between the levels of some community services and infrastructure in the Northwest Territories and in the rest of Canada is now much narrower than it was twenty years ago, although it still exists. This is the case in the areas of universally provided programs such as education and health. The need for additional capital expenditures in public housing and educational, medical and recreational facilities is today more in line with needs elsewhere in Canada. Since most of this infrastructure was built over the past twenty years,

CHART C4
GROSS DOMESTIC PRODUCT BY INDUSTRY, N.W.T.
1989



Source: GNWT Bureau of Statistics

government capital expenditures in those areas cannot be expected, therefore, to grow at rates similar to what was experienced over that period. In other areas such as transportation and community infrastructure, however, the gap has not even started to be significantly breached.

Past government current expenditures were spurred by the transfer of government program expenditures from the federal to the territorial government, the extension of educational, medical and social services, and the establishment of a complete government administration in the Northwest Territories. This phase of development is virtually completed. Only a very few program transfers from the federal government are required before the Government of the Northwest Territories has the same administrative responsibilities that provincial governments have.

In the area of program expenditures, there remain glaring needs which were in part created by the transition to a modern wage economy, even if the gap between needs in the Northwest Territories and in the rest of Canada may appear superficially to have been corrected. Finally, transfers to persons will not grow at rates similar to those of the past since the safety net of income security programs now extends to most territorial residents and since there likely will be few additional national programs introduced in the 1990's.

The Government of the Northwest Territories cannot fill the gap created by reduced growth in federal direct expenditures and transfer payments. Close to 85 per cent of the Government of the Northwest Territories' funding comes from transfers from the federal government. Furthermore, the tax base of the Northwest Territories is very narrow and cannot provide the source for financing significant expenditure growth. The Government of the Northwest

Territories is intensifying its efforts to strengthen the linkages between the sectors of the economy, thereby increasing the benefits of economic growth retained in the Northwest Territories. Through the implementation of its economic strategy, it will increase the benefits that residents can obtain from an expanding economy, especially those in more isolated communities.

Without a renewed commitment by the federal government to the development of Canada's north in the form of additional direct expenditures or of additional funding to the Government of the Northwest Territories, the public sector will contribute much less to growth over the next decade. Current federal policies with respect to general funding to the Government of the Northwest Territories suggest that there has been an erosion of the federal government's commitment, partly as a result of the pressing need to address the federal deficit and debt problems.

In 1988, a limit was imposed on the growth of the expenditure base used to determine the annual grant from Canada - the Formula Financing Agreement's Gross Expenditure Base. Growth in the Gross Expenditure Base per capita is limited to the lesser of the three-year average of the growth in total expenditures per capita by provincial and local governments in Canada and of the three-year average of the growth of national nominal Gross Domestic Product. To the extent that provincial and local government expenditures are counter-cyclical in nature, i.e., that they grow faster than the economy in periods of recession and at a slower rate in periods of economic expansion, the growth of the per capita Gross Expenditure Base of the Government of the Northwest Territories will likely fall behind both the growth in expenditures of local and provincial governments in Canada and of the Canadian economy. The Formula also has a mechanism which penalizes the Government of the Northwest Territories for having below average nominal tax rates and creates a longer-term incentive to increase the already high tax burden of Northwest Territories residents. Finally, the Formula has the bizarre and perverse effect of reducing funding by 120 per cent of increases in tax collections that are attributable to increases in economic activity.

The numerical results of the medium-term forecast prepared by Stabler and Howe[3] present a disturbing picture of the economy's performance over the next decade. The average annual growth rate in real Gross Domestic Product is forecast to be 3.9 per cent, a fairly high rate which is explained by a rapid growth in exports of gas through the Mackenzie Valley Pipeline which is assumed to be constructed in the next decade. Real Final Domestic Demand however is forecast to grow by only 0.6 per cent per year. This would be accompanied by employment growth of less than 1 per cent per year, resulting in an overall unemployment rate of 24 per cent and a native unemployment rate of 40 per cent by the year 2001.

There appear to be only two developments that could reverse this forecast: a much higher volume of investment in the mineral and/or the oil and gas sectors or the implementation of an active federal government policy to foster the continued economic development of the north. The first development is possible. Mineral market conditions could undergo

[3] *Ibid.*, page 273.

fundamental changes in the next decade. As for oil and gas markets, higher prices would improve the profitability of developing Northwest Territories reserves, but they would do the same for numerous competing higher cost hydrocarbon reserves. The effect on Northwest Territories production could be limited. Finally, growth in the primary sector is unlikely to provide sufficient employment opportunities to absorb the growing labour force.

One way to avoid a relative decline of the Northwest Territories, and possibly the only way, is a strong federal commitment to continue and complete the task of northern economic development. Some areas of the Territories' infrastructure needs have barely been scratched and constitute a neccessary condition to the development of a self-sustaining economy. Transportation is one of the main barriers to economic development and therefore one of the priority areas for public expenditures[4]. The benefits that transportation would provide, through increased access to resources for the non-renewable resource industry, greater tourism potential and improvements of the overall weak linkages between the regions and sectors of the economy, would be enormous. There is still a significant amount of catch-up needed to bring standards of some educational and health facilities in line with the Canadian average. Community infrastructure also requires expansion and upgrading. A comparative study of standards of infrastructure undertak[illegible]by the Government of the Northwest Territories revealed that there were significant gaps to achieve levels of services comparable to those in the rest of Canada.

An increasing commitment to social programmes is also required. Social problems of daunting proportions exist in the Northwest Territories. Alcohol and substance abuse, family violence, adult illiteracy rates, school drop-out rates and overall low educational attainment rates are amongst the worst in Canada. These problems largely stem from the difficult transition of the native population from the traditional to the modern economy, and its different system of values. They are exacerbated by the lack of employment opportunities and the resulting sense of alienation. Additional funding alone will not solve these problems but it is an essential component of the solution.

Left to themselves, the free play of market forces would not have resulted in the degree of economic development that has been achieved over the past twenty years in the Northwest Territories. It is just as unlikely to complete the economic development of the north except under exceptionally favourable conditions in the non-renewable resource sector. Strong support is required from the national government, especially over the next critical decade.

[4] Government of the Northwest Territories, Department of Transportation, *Northwest Territories Transportation Strategy*, 1990.

TABLE C1
NORTHWEST TERRITORIES ECONOMIC INDICATORS

	1988	1989	1990
POPULATION (thousands) [a]	52.4	53.6	54.3
INCOME & EXPENDITURES ($ millions)			
- Gross Domestic Product	1,897	1,999	-
- Final Domestic Demand	2,149	2,462	-
- Gross Domestic Product at Factor Cost	1,917	2,015	-
- Goods Producing Sector	861	879	-
- Services Producing Sector	1,056	1,136	-
- Retail Sales	285	303	313[b]
- Investment	657	876	660[c]
EMPLOYMENT & EARNINGS			
- Employment (thousands)	19.9	20.3	19.8[b]
- Goods Producing Sector	3.9	3.7	3.6[b]
- Services Producing Sector	16.0	16.6	16.2[b]
- Unemployment Rate (%) [d]	-	16	-
- Average Weekly Earnings ($)	621	664	703[b]
MINERAL SHIPMENTS ($ millions)	957	1,145	-
- Fuels	130	179	-
- Other Minerals	827	966	-
YELLOWKNIFE CONSUMER PRICE INDEX (% change)	2.9	3.9	4.5

[a] *October 1*
[b] *Estimate*
[c] *Forecast based on Statistics Canada, Public and Private Investment in Canada*
[d] *Bureau of Statistics Labour Market Survey*